

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-1-E - ORDER NO. 2009-____
JUNE ___, 2009

IN RE: Annual Review of Base Rates for Fuel Costs)	ORDER APPROVING
of Carolina Power & Light Company d/b/a)	AND ADOPTING
Progress Energy Carolinas, Inc.)	ADJUSTMENT IN FUEL
)	COST RECOVERY
)	FACTOR

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the annual review of base rates for fuel costs of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (“PEC” or “Company”) and for a determination as to whether any adjustment in the fuel cost recovery factor is necessary and reasonable. The procedure followed by the Commission in this proceeding is set forth in S.C. Code Ann. § 58-27-865 (Supp. 2008). Specifically, S.C. Code Ann. § 58-27-865(B) states in part: “Upon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.”

The Parties to the case filed a Settlement Agreement prior to the hearing, attached hereto as Order Exhibit 1. The Parties then moved to schedule a hearing on Thursday, June 11, 2009, at which the Commission would perform its review of the evidence

supporting the proposed Settlement Agreement and decide whether the proposal would be approved. The Joint Motion was granted by the Commission.

By statute, the Commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed, observed, and followed by every public utility in this State. S.C. Code Ann. Section 58-5-210 (1976).

Further, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission’s consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected Parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

In accordance with its above-described statutory duties, the Commission held a public hearing at the offices of the Commission on June 11, 2009, at which the

Commission considered the evidence in support of the proposed settlement to determine whether the proposal was just, fair and reasonable, consistent with the public interest, and in accordance with law and regulatory policy of the Commission. The Honorable Elizabeth B. Fleming, Chairman, presided. Len S. Anthony, Esquire, represented the Company. Nanette S. Edwards, Esquire, and Shealy Boland Reibold, Esquire, represented the South Carolina Office of Regulatory Staff (“ORS”). Robert R. Smith, II, Esquire, represented Nucor Steel-South Carolina (“Nucor”). ORS, Nucor, and PEC are collectively referred to as the “Parties” or sometimes individually as “Party.”

At the beginning of the hearing, the Parties presented the Settlement Agreement, which was filed with the Commission on May 28, 2009 and admitted into the record as Hearing Exhibit 1. In the Settlement Agreement, the Parties represented to the Commission that they had discussed the issues presented in this case and determined that each Party’s interests and the public interest would be best served by settling all issues pending in this case in accordance with the terms and conditions contained in the Settlement Agreement.

PEC presented the testimonies of Dewey S. Roberts, II and Bruce P. Barkley. ORS followed PEC and presented the testimonies of Leigh C. Ford and Robert A. Lawyer. The pre-filed testimony was entered into the record as if read from the stand and the exhibits of each witness were entered into the record without objection as Composite Hearing Exhibits 2, 3, 4, and 5, respectively.

Dewey S. Roberts presented direct testimony on behalf of the Company. He testified PEC had prudently operated and dispatched its generation resources during the

review period to minimize fuel costs. PEC witness Bruce P. Barkley presented both direct and settlement testimony on behalf of the Company, and sponsored the Settlement Agreement. Mr. Barkley testified that the Agreement, which sets forth a reduced fuel factor, is in the public interest and allows PEC to recover its just, reasonable, and prudent fuel costs in an equitable and fair manner and properly implements the intent and spirit of § 58-27-865.

Both of ORS's witnesses testified in support of the Settlement Agreement. Ms. Ford testified in support of the Settlement Agreement and presented the ORS Electric Department's findings and recommendations resulting from ORS's review of the Company's fuel expenses and power plant operations used in the generation of electricity for the period under review. The testimony supported the terms of the Settlement Agreement regarding the appropriate fuel factors for PEC to charge for the period beginning with the first billing cycle in July 2009 and continuing through the last billing cycle of June 2010, which are listed in the table below:

Class	Base Fuel Cost Component (cents/kWh)	Environmental Fuel Cost Component (cents/kWh)	Total Fuel Costs Factor (cents/kWh)	Increase for RECD
Residential	3.002	0.032	3.034	3.059 ¹
General Service (non-demand)	3.002	0.028	3.030	3.030
General Service (demand)	3.002	0.000 ²	3.002	3.002
Lighting	3.002	0.000	3.002	3.002

¹ RECD factor is .83%

² The environmental rate for these customers is 10 cents per kW.

Mr. Robert A. Lawyer presented the results of the ORS Audit Staff's examination of PEC's books and records pertaining to the Fuel Adjustment Clause operation for the period of March 2008 through June 2009. The Parties agreed to accept all adjustments as set forth in the testimony of ORS witnesses Ford and Lawyer.

The Total Fuel Cost Factors include .079 cents per kWh to recover the under-recovered base fuel cost balance as of June 30, 2009, which is projected to be \$5,434,538. This amount consists of historical under-recovered costs for the period March 1, 2008 through February 28, 2009, offset by the estimated over-recovery for the period of March 1, 2009 through June 30, 2009.

The Settlement Agreement provides that the Parties will work together in good faith to evaluate a time-of-use fuel factor mechanism for PEC, which would provide more accurate price signals to customers through a higher fuel factor during on-peak periods and a lower fuel factor during off-peak periods. If the Parties agree that such a time-of-use fuel factor mechanism can be developed and would be in the public interest, the Parties shall work together in good faith to attempt to fully develop such a mechanism and, if developed, to submit such proposal to the Commission for approval.

The Settlement Agreement further provides that PEC will continue to provide to the Parties copies of the monthly fuel recovery reports currently filed with the Commission and ORS and quarterly forecasts of the expected fuel factor to be set in PEC's next annual fuel proceeding and PEC's historical over/under-recovery. The Parties agree that any and all challenges to PEC's historical fuel costs and revenues for the period ending February 28, 2009, are not subject to further review. However, fuel

costs and revenues for periods beginning March 1, 2009, and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings.

After careful review of the Settlement Agreement, and after having heard the testimony of the witnesses and representations of counsel, the Commission finds that approval of the Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865. The Settlement Agreement allows recovery in a precise and prompt manner while assuring public confidence and minimizing abrupt changes in charges to customers. As such, it is a reasonable resolution of the issues in this case and stabilizes the fuel factors through the last billing cycle of June 2010. Additionally, the Commission finds that the resolution espoused in the Settlement Agreement does not appear to inhibit economic development. Finally, the Commission finds and concludes that the Settlement Agreement affords the Parties with the opportunity to review costs and operation data in succeeding fuel proceedings.

IT IS THEREFORE ORDERED THAT:

1. The fuel purchasing practices, plant operations, and fuel inventory management of PEC related to the historical fuel costs and revenues for the period ending February 28, 2009, are prudent.
2. The Settlement Agreement is hereby approved, adopted, and incorporated herein by reference, and is found to be a just and reasonable resolution of the issues in this case.

3. PEC shall set its fuel factor (not including the environmental component or the RECD component) at 3.002 cents per kWh effective for bills rendered on and after the first billing cycle of July 2009, and continuing through the billing month of June 2010.

4. PEC shall set its environmental component billing factor at 0.032 cents per kWh for the Residential class, 0.028 cents per kWh for the General Service (non-demand) class, and 10 cents per kW for the General Service (demand) class for bills rendered on or after the first billing cycle of July 2009 and continuing through the billing month of June 2010.

5. PEC shall set its Residential Service Energy Conservation Discount (RECD) component billing factor at .025 cents per kWh for the residential class for bills rendered on or after the first billing cycle of July 2009 and continuing through the billing month of June 2010. The RECD component allows PEC to reflect monthly fuel revenues which account for a 5 percent discount provided to approximately 17 percent of PEC's South Carolina residential sales under approved Rider RECD.

6. The Parties shall work together in good faith to evaluate a time-of-use fuel factor mechanism for PEC. If the Parties agree that such a time-of-use fuel factor mechanism can be developed and would be in the public interest, the Parties shall work together in good faith to attempt to fully develop such a mechanism and, if developed, to submit such proposal to the Commission for approval.

7. The Parties shall abide by the terms of this Settlement Agreement.

BY ORDER OF THE COMMISSION:

Elizabeth B. Fleming, Chairman

ATTEST:

John E. Howard, Vice-Chairman

(SEAL)